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Preston
MINES LIMITED

Annual Report 1966

Preston

MINES LIMITED

ANNUAL MEETING

The annual meeting of the shareholders of the Company will be held on Tuesday, April 4, 1967 at 11:00 a.m. (Toronto time) in the Conference Room, 26th floor, 120 Adelaide Street West, Toronto, Canada.

Annual Report 1966

Preston Mines Limited

Directors

G. R. Albino
W. P. Arnold
G. Baker
J. Ian Crookston

H. L. Roper (dec'd.)

W. B. Malone
Dr. G. B. Langford
R. D. Lord
W. C. Pitfield

Officers

W. B. Malone
W. P. Arnold
G. Baker
E. S. W. Hunt
R. D. Lord
J. S. Turnbull
D. G. Scott

President
Vice-President
Vice-President
Vice-President
General Manager of Operations
Secretary
Treasurer

Mine Manager (acting)

J. Engstrom

Head Office

120 Adelaide Street West, Toronto, Canada

Bankers

The Toronto-Dominion Bank

Toronto and South Porcupine, Ontario

Solicitors

Bouck, Hetherington, Fallis, Trivett & Park

Toronto, Ontario

Auditors

Allen, Miles, Fox & Johnston, Chartered Accountants

Toronto, Ontario

Transfer Agents

Common Shares
Eastern & Chartered Trust Company
Canadian Bank of Commerce Trust Company

Toronto, Ontario
New York, N.Y.

Common Shares Listed

Toronto Stock Exchange
American Stock Exchange

Toronto, Ontario
New York, N.Y.

Directors' Report to the Shareholders

Your Directors present the seventh Annual Report of the Company for the year ended December 31, 1966.

Financial

The net profit for the year 1966 was \$1,925,087, representing 29 cents per share, compared to \$2,023,488 or 30 cents per share in 1965. As in the past several years, your Company's profit came almost entirely from dividends received on its 43.95% share interest in Rio Algom Mines Limited. These dividends amounted to \$1,883,840 in 1966, the same amount as in the previous year.

The net profit from gold mining operations in 1966 was \$27,286 and net revenue from sale of equipment from the Stanleigh uranium mine property was \$23,220, both lower than in 1965.

In 1966, two dividends of 14¢ per share each were paid by the Company, the first on June 27th and the second on December 29th. The total dividend of \$1,883,840 paid to shareholders represented a complete distribution of the dividends received from Rio Algom Mines Limited.

Operations

Notwithstanding a substantial wage increase required during the year, a small margin of operating profit was maintained in the Company's mining activities. Profits are dependent upon Government assistance, and are subject to increasing costs. Underground development at the mine was curtailed to control costs and, although some nineteen months of reserves at the current milling rate remained at year-end, the impact of anticipated higher costs during 1967 on the already low margin of profit may make it necessary to consider closing down the mining operation before these reserves are completely exhausted. Staff and employees have been advised of the status of the mine and a programme of termination payments has been arranged.

Investment in Rio Algom Mines Limited

No change has been made in your Company's investment in Rio Algom which remains at 4,709,600 common shares, representing an interest of 43.95% of the issued common shares of that company.

With the consent of Rio Algom and for your information, the report of the Directors of that company to its shareholders for 1966 is reproduced in full on Pages 12 to 16 of this report.

Directors and Officers

Your Directors record with regret the death on August 10, 1966, of Mr. Harry Roper, of Halifax, Nova Scotia, who had been an esteemed colleague on the Board since 1961.

Toronto, February 27, 1967

On behalf of the Board of Directors
W. B. MALONE
President

Auditors' Report

To the Shareholders of Preston Mines Limited

We have examined the balance sheet of Preston Mines Limited as at December 31, 1966 and the related statements of profit and loss and retained earnings for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and statements of profit and loss and retained earnings present fairly the financial position of Preston Mines Limited as at December 31, 1966 and the results of its operations for the year ended on that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and application of funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the sources and applications of funds of the company for the year ended December 31, 1966.

Toronto, Canada,
February 1, 1967.

ALLEN, MILES, FOX & JOHNSTON
Chartered Accountants

Preston Mines Limited

(Incorporated under the laws of Ontario)

Balance Sheet as at December 31, 1966

(with comparative figures as at December 31, 1965)

ASSETS

	<u>1966</u>	<u>1965</u>
CURRENT:		
Cash	\$ 104,673	\$ 71,780
Call loans and short term deposits	250,000	700,000
Settlements receivable	96,775	111,030
Estimated amount receivable under The Emergency Gold Mining Assistance Act	160,379	177,932
Accounts receivable from affiliated companies	10,289	9,054
Other accounts receivable	13,154	18,222
	<u>635,270</u>	<u>1,088,018</u>
INVESTMENT IN RIO ALGOM MINES LIMITED:		
4,709,600 common shares, at cost	31,653,900	31,653,900
Debentures, at cost	477,500	—
	<u>32,131,400</u>	<u>31,653,900</u>
FIXED:		
Plant and equipment, at cost	23,418,827	23,628,869
Less accumulated depreciation (note 1)	23,406,421	23,610,031
	12,406	18,838
Mining properties, at cost (\$1,752,654) less amortization (note 1)	1,182,865	1,182,865
	<u>1,195,271</u>	<u>1,201,703</u>
OTHER:		
Supplies, at cost	116,153	93,667
Deferred charges, deposits and prepaid expense	58,348	74,964
	<u>174,501</u>	<u>168,631</u>
	<u>\$34,136,442</u>	<u>\$34,112,252</u>

The accompanying notes are an integral part of the

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1966</u>	<u>1965</u>
CURRENT:		
Accounts payable and accrued liabilities	\$ 96,671	\$ 112,790
Accounts payable to an affiliated company	4,815	5,694
Unclaimed dividends	144,014	144,073
	<u>245,500</u>	<u>262,557</u>

SHAREHOLDERS' EQUITY:

Capital stock—

Authorized:

1,069,925 4% cumulative, redeemable, non-voting preference shares
with a par value of 50 cents each

10,000,000 common shares without par value

Issued:

6,728,000 common shares	6,728,000	6,728,000
Contributed surplus	24,993,673	24,993,673
Retained earnings	2,169,269	2,128,022
	<u>33,890,942</u>	<u>33,849,695</u>

Approved on behalf of the Board:

W. B. MALONE, Director

W. P. ARNOLD, Director

<u>\$34,136,442</u>	<u>\$34,112,252</u>
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tement and should be read in conjunction therewith.

Statements of Profit and Loss and Retained Earnings

YEAR ENDED DECEMBER 31, 1966

(with comparative figures for 1965)

PROFIT AND LOSS

	<u>1966</u>	<u>1965</u>
REVENUE:		
Bullion production less marketing costs	\$1,124,311	\$1,278,435
Estimated recovery under The Emergency Gold Mining Assistance Act	306,980	349,250
	<u>1,431,291</u>	<u>1,627,685</u>
OPERATING COSTS:		
Mine operating	1,398,688	1,568,762
Depreciation (note 1)	5,317	8,074
	<u>1,404,005</u>	<u>1,576,836</u>
PROFIT from mining operations before the undernoted items	27,286	50,849
ADD OR (DEDUCT):		
Dividends received from Rio Algom Mines Limited	1,883,840	1,883,840
Investment and other income	46,778	28,831
Proceeds from sale of uranium assets	86,421	195,435
Cost of reconditioning equipment sold and idle mine expense	(63,201)	(80,126)
Administrative and general expense (including directors' fees of \$8,650 in 1966 and \$7,383 in 1965)	(56,037)	(55,341)
NET PROFIT FOR THE YEAR (note 2)	<u>\$1,925,087</u>	<u>\$2,023,488</u>

RETAINED EARNINGS

BALANCE, beginning of the year	\$2,128,022	\$1,988,374
NET PROFIT for the year	<u>1,925,087</u>	<u>2,023,488</u>
	4,053,109	4,011,862
DIVIDENDS PAID on common shares	<u>1,883,840</u>	<u>1,883,840</u>
BALANCE, end of the year	<u>\$2,169,269</u>	<u>\$2,128,022</u>

The accompanying notes are an integral part of these statements and should be read in conjunction therewith.

Statement of Source and Application of Funds

YEAR ENDED DECEMBER 31, 1966

(with comparative figures for 1965)

	<u>1966</u>	<u>1965</u>
FUNDS WERE PROVIDED AS FOLLOWS:		
Operations—		
Net profit for the year	\$1,925,087	\$2,023,488
Add depreciation charge which did not require a cash outlay during the year	5,317	8,074
	<u>1,930,404</u>	<u>2,031,562</u>
Proceeds from sale of gold assets	3,425	8,000
Decrease in other assets	—	29,015
	<u>1,933,829</u>	<u>2,068,577</u>
FUNDS WERE APPLIED AS FOLLOWS:		
Additions to fixed assets	2,310	—
Purchase of Rio Algom Mines Limited debentures	477,500	—
Dividends paid on common shares	1,883,840	1,883,840
Increase in other assets	5,870	—
	<u>2,369,520</u>	<u>1,883,840</u>
DECREASE IN WORKING CAPITAL (increase in 1965)	<u>\$ 435,691</u>	<u>\$ 184,737</u>
	December 31,	December 31,
	<u>1966</u>	<u>1965</u>
CURRENT ASSETS	\$635,270	\$1,088,018
CURRENT LIABILITIES	245,500	262,557
	<u>\$389,770</u>	<u>\$ 825,461</u>
DECREASE IN WORKING CAPITAL		<u>\$ 435,691</u>

Notes to Financial Statements

DECEMBER 31, 1966

1. AMORTIZATION AND DEPRECIATION:

With respect to the company's fixed assets used in the production of gold, the cost of plant and equipment is being depreciated on the reducing balance basis at the maximum rates allowable for income tax purposes. No amount for depletion has been provided in the company's accounts for ore mined from the gold property. Fixed assets used in the production of uranium were fully amortized by December 31, 1963 at which time deliveries under contract had been completed.

2. INCOME AND MINING TAXES:

It is estimated that there are no income or mining taxes payable on the profit for the year.

3. TERMINATION PAY:

In 1966 the company adopted a termination pay plan for the benefit of any employees whose employment may be terminated by reason of the eventual shutdown of the company's gold mine. No provision has been made in the company's accounts for any liability arising under this plan which it is estimated will not exceed \$110,000.

Report on Operations

Results and comments on 1966 operations at the Company's gold mine at South Porcupine, Ontario are set out below:

	<u>1966</u>	<u>1965</u>
Dry tons milled	155,000	180,810
Average per milling day	587	613
Fine ozs. of gold produced (est.)	29,880	33,995
Fine ozs. of silver produced (est.)	3,949	3,989
Average mill heads in ozs. per ton	0.201	0.196
Average net recovery in ozs. per ton.	0.193	0.188
Average gold in tailings in ozs. per ton	0.0083	0.0084
Average recovery	95.9%	96%

Production

Tons milled were 14% less than in 1965, mainly because of the 40-hour week introduced in May, 1966 and labour shortage during part of the year. The grade of mill feed was marginally better than last year. Operating costs per ton milled, before providing for depreciation, administrative costs, taxes and bullion marketing expense were as follows:

	<u>1966</u>	<u>1965</u>
Development and diamond drilling	\$1.24	\$1.48
Mining	6.35	5.88
Milling	<u>1.43</u>	<u>1.32</u>
Total cost per ton milled	<u>\$9.02</u>	<u>\$8.68</u>

The 4% increase in operating costs was due to higher wages, material and service expense as well as the lower tonnage milled. The average number of staff and hourly-rated personnel was reduced from 264 in 1965 to 224, although there was a high rate of labour turnover due to continued mining and construction activity in the area.

Development

The development programme was again curtailed in 1966, the comparative figures being as follows:

	<u>1966</u>	<u>1965</u>
Advance (feet)	5,314	7,755
Ore developed (feet).	1,125	2,300
New ore width (feet).	4.7	4.7
Cut grade (ozs. per ton)	0.25	0.20

Two-thirds of the new ore disclosed was in the Midcamp zone and the remainder in the old mine where sections, although of slightly higher grade, were short and irregular.

General

The collective bargaining agreement with the United Steelworkers of America was renegotiated for a one-year term starting May 16, 1966, and included the adoption of a 40-hour week with maintained take-home pay.

In December, 1966 Mr. J. Engstrom was appointed acting Mine Manager, replacing Mr. G. F. Greenacre, who after 10 years as Mine Manager at South Porcupine, became Mine Manager of the Rio Algom Pronto mine. Mr. Greenacre's many years of loyal service are gratefully acknowledged and the staff and employees of the Company are thanked for their good performance during the year.

R. D. LORD

General Manager of Operations

Toronto, February 27, 1967

titanium operation continued to develop in a satisfactory manner and is considered to be a promising undertaking.

As stated in the Chairman's letter, Mr. Orren S. Leslie was appointed President and Chief Executive Officer of Atlas Steels Company Limited in 1966. Other major managerial, operational and technical strengths were also added to the steel division in 1966, particularly at the Quebec plant.

Specific operational problems now centre on the new No. 2 cold mill and the planetary mill, the last two units required to come on stream in order to effect full integration and utilization of the Quebec plant. The gear train in the No. 2 cold mill was not satisfactory and is being replaced. Since this mill is similar in most respects to the No. 1 cold mill which is now fully operational, it is anticipated that it will be brought into commercial production without undue additional problems. Several test runs were carried out on the planetary mill during the latter part of the year and it is considered that satisfactory progress is now being made towards bringing this unit into commercial production.

A comprehensive re-evaluation was made of the projected supply-demand situation in stainless sheet, as a basis for refinement of the strategic marketing plan for the Quebec plant operation.

The merging in late 1965 of all of the steel division's Canadian warehousing activities into one organization, Atlas Alloys, has resulted in the integration of some facilities and this, together with the completion of new warehouses now under construction in Winnipeg, Edmonton and Vancouver, will add further strength to the Canadian marketing organization. Certain Atlas proprietary products are now being sold through independent distributors as well as through Atlas Alloys to provide wider distribution of these well established brands.

Significant progress has been made by the U.S. marketing subsidiary in penetrating the U.S. market with specialty steels in a programme aimed at upgrading the Welland plant product mix and stabilizing the use of its productive capacity on a month to month basis.

The free-port warehouse at Rotterdam became operative in 1966, enabling the European marketing organization to reduce inventories and consolidate its operation into a more effective unit.

Other Interests

The Company has had the responsibility for providing supervisory management and other services to British Newfoundland Corporation Limited and to Churchill Falls (Labrador) Corporation Limited since August, 1963, for which it received a management

fee. In recognition of the interruption of progress on the Churchill Falls power project in 1964 the fee was suspended for the period of interruption and during this interval the Company was reimbursed for the cost of advisory and management services rendered.

A letter of intent was signed by Churchill Falls and Quebec Hydro Electric Commission in October, 1966 which contemplates the purchase by Quebec Hydro of power generated at Churchill Falls. The period of interruption was ended by this action. The Company has signed an agreement to this effect under which payment of a management fee will be resumed retroactively to November 1, 1966 at such time as Churchill Falls receives proceeds of financing relative to the power project. Until this occurs, the Company will continue to be reimbursed for the cost of advisory and management services which it provides.

Pursuant to the terms of this agreement, Rio Algom exercised an option in February, 1967 on Churchill Falls shares, thereby increasing its holdings to approximately 10.48% of the outstanding shares of that company.

Long Term Outlook

Before presenting to you in the following pages the financial statements and report of operations, your directors feel it appropriate to comment on the longer range outlook for your Company in its mining and steel operations.

Uranium sales contracts held by the Company at the beginning of the year provided for deliveries into late 1971. Planned and projected requirements for nuclear fuel had indicated that major buyers would probably enter the market in the late 1960's for product required during the mid-1970's. This anticipated re-activation of the uranium market has begun to occur and during 1966 the Company negotiated two major long term uranium supply contracts. These contracts, which are with the United Kingdom Atomic Energy Authority and The Hydro-Electric Power Commission of Ontario, are, in the opinion of the Company, attractive commercial arrangements. In addition, they ensure continuity of the Company's uranium operations when the current contracts expire and represent tangible substantiation of the Company's optimistic views as to the long term future of its uranium operations.

Under contracts now in force, deliveries will be made to Eldorado and can be made to the Canadian stockpile during the period 1967 through 1971; however, the per pound price for the years 1969 through 1971 under the Eldorado contract will be lower than that previously received. Deliveries of small quantities will be made to Ontario Hydro beginning in 1970 and will increase thereafter. The Company can, at its option, commence deliveries to the U.K. Atomic Energy Authority in 1972.

The effect of the Ontario Hydro and the U.K. Atomic Energy Authority contracts is to provide the Company with an assured base load extending into the 1980's without commitment of an undue proportion of its production capacity. If market conditions warrant, the Company is in a position to utilize a part of this forward capacity to negotiate contracts which could include deliveries in the years 1969 through 1971, during which time the lower priced balance of the Eldorado contract will be completed.

As stated previously, 1966 mining profits were improved by substantial increases in copper prices. The price of copper is influenced by such a wide variety of unpredictable forces that valid predictions of future prices cannot be made. Having regard to these conditions, prudence dictates that continuation of the present price level should not be relied upon for financial planning and capital investment justification purposes.

The disappointing aspect of the Company's operations has centred for several years on the new Quebec steel mill. Failure to bring this plant into effective production when originally planned has had a detrimental effect on overall net earnings. The rate of improvement which can realistically be achieved, in steel division earnings, assuming the continuation of a healthy economy, is expected to modify but not completely offset the short term decline in the mining division earnings caused by the reduction in average selling prices of uranium referred to above.

In retrospect, it is evident that the problems to be resolved in bringing into operation a complex steel mill of such advanced design as the Quebec plant had been underestimated. As a consequence, a high degree of managerial concentration has been focused on this activity. The result has been a delineation of problem areas, the development of specific plans for their resolution and the taking of positive corrective action where necessary.

Personnel

The Chairman has made reference in his letter to certain senior level personnel changes which occurred during the year. When such changes are made it is frequently easy to overlook the fact that in the final analysis the Company is dependent for its success on the efforts of the entire organization. Your directors particularly wish to emphasize their appreciation of this reality and to express sincere appreciation for their efforts to all members of the Company's organization.

Toronto,
February 24, 1967.

On behalf of the Board
R. D. ARMSTRONG
President



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